

## **Rough Draft – Still Revising**

Naval Postgraduate School  
Department of National Security Affairs  
Economic Intelligence

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NS 4141  
Dr. Robert Looney

Office Hours MWTuTh 8:30-10  
Glasgow 305 or by appointment  
[relooney@nps.navy.mil](mailto:relooney@nps.navy.mil)  
<http://web.nps.navy.mil/~relooney>

### Course Outline

#### **Main Texts:**

Robert Hall and John Taylor, **Macro Economics, Fifth Edition**, (New York: Norton, 1997) -- main text on macroeconomics)

Evan H. Potter, **Economic Intelligence & National Security** (Carleton University Press, 1998) -- basic aspects of economic intelligence

C.R. Neu and Charles Worlf, **The Economic Dimensions of National Security** (Rand, 1994) -- brief overview of the economics of national security

John Fialka, **War by Other Means: Economic Espionage in America , 1997**

Chaman Jain and Igor Tomic, **Essentials of Monetary and Fiscal Economics** (Graceway Publishing Co 1995) (supplemental text on macroeconomics).

Richards Heuer, **Quantitative Approaches to Political Intelligence: The CIA Experience** (Boulder, Colorado: Westview Press, 1978).

Richards Heuer, **Psychology of Intelligence Analysis** (CIA, 1999).

Joseph Longo, **Methodology Catalog: An Aid to Intelligence Analysts and Forecasters** (Washington: DIA, 1983).

Patrick J. DeSouza, **Economic Strategy and Natural Security: A Next Generation Approach** (Westview, 2000)

Jean-Marc F. Blanchard, Edward Mansfield, and Norrin Ripsman, **Power and the Purse: Economic Statecraft, Interdependence and National Security** (London: Frank Cass, 2000)

Richard Kugler and Ellen Frost, **The Global Century: Globalization and National Security** (Washington: NDU Press, 2001)

Richard Haass, **Economic Sanctions and American Diplomacy** (New York: Council on Foreign Relations, 1998).

**Supplemental Texts:**

G. Hufbauer, J. Schott and K. Elliott, **Economic Sanctions Reconsidered: History and Current Policy**, second edition (Washington: Institute for International Economics, 1990).

G. Hufbauer, J. Schott and K. Elliott, **Economic Sanctions Reconsidered: Supplemental Case Histories** (Washington: Institute for International Economics, 1990).

CIA, **Handbook of International Economic Statistics** (1999)

Alan J. Auerbach and Laurence J. Kotlikoff, **Macroeconomics: An Integrated Approach** (South-Western College Publishing, 1995).

Wayne Sandholtz et al., **The Highest States: The Economic Foundations of the Next Security System** (New York: Oxford University Press, 1992).

Robert Looney, **Third World Military Expenditures and Arms Production** (London: Macmillan, 1988).

Neil Richardson, **Foreign Policy and Economic Dependence** (Austin: University of Texas Press, 1978).

Gordon McCormick and Richard E. Bissell, **Strategic Dimensions of Economic Behavior** (Praeger Publishers, 1984).

Charles Wolf et. al., **Long-Term Economic and Military Trends, 1950-2010** (Santa Monica: Rand Corporation, 1989).

Klaus Knorr and Frank Trager, **Economic Issues and National Security** (Lawrence, Kansas: Regents Press of Kansas, 1977).

James Tritten, **Non-Traditional Forms of Intelligence** (Monterey: Naval Postgraduate School, 1993).

Klaus Heiss, Klaus Knorr and Oskar Morgenstern, **Long Term Projections of Power** (Cambridge, Mass: Ballinger Publishing Company, 1973).

Randall Fort, **Economic Espionage: Problems and Prospects** (Washington: Consortium for the Study of Intelligence, 1993).

Kenneth Kessel, **Strategic Materials: U.S. Alternatives** (Washington: National Defense University Press, 1990).

Albert O. Hirschman, **National Power and the Structure of Foreign Trade** (Berkeley: University of California, 1969).

## **Overview**

The focus and content of economic intelligence is continually changing. Based on past classes and feedback from students it is apparent that instruction should provide a basic understanding of macroeconomics, an introduction to a number of analytical techniques, a basic familiarity with the general literature in the area and experience in data gathering and analysis. As such the first part of the course will focus on macroeconomics, country analysis and forecasting. Along the way a number of relevant quantitative techniques will be examined and discussed. With this background we will start looking at some on-going research – the economics of Naval Forward Presence. The latter part of the course will focus on a series of issues involving various aspects of economic intelligence—vulnerability assessment, sanctions and projections of economic power and capabilities.

## **Main Areas:**

Macroeconomics/Economic Data Analysis  
Analytical Techniques and Procedures  
Regional Economic Assessment  
Globalization and its Implications for Economic Security  
Country Analysis/Risk Assessment  
Economic Security Issues  
Military Expenditures and Defense Budgeting  
Strategic Minerals  
Economic Espionage  
Sanctions

## **Quantitative Techniques**

Trend Analysis  
Regression Analysis  
Factor Analysis  
Discriminate Analysis  
Probabilistic Forecasting  
Bayesian Forecasting  
Content Analysis  
Macroeconomic Modeling and Simulation

## **Assignments:**

### **Introduction – Class Overview (April 2)**

### **Macroeconomic Overview (April 4)**

Overview (Hall and Taylor, Chapter 1)  
Measuring an Economy's Performance (Hall and Taylor Chapter 2)  
Papers on the Underground Economy

### **Factors Responsible for Economic Growth (April 9)**

Economic Growth (Hall and Taylor, Chapter 3)  
Fiscal and Monetary Policy and Growth (Hall and Taylor, Chapter 4)

C.R. Neu and Charles Wolf, The Economic Dimensions of National Security

**Macroeconomic Applications I – Long Run Forecasting (April 11)**

Charles Wolf et.al., Long Term Economic and Military Trends 1994-2015  
Forecasts of Long Run National Power in Klaus Heiss, Klaus Knorr and Oskar Morgenstern, **Long Term Projections of Power** (Cambridge, Mass: Ballinger Publishing Company, 1973).  
CIA Estimates of Soviet Reform Outcomes  
Karen Rasler and William Thompson, "Political-Economic Tradeoffs and British Relative Decline" in Steve Chan and Alex Mintz, **Defense, Welfare and Growth** (Routledge, 1992)

**Basic Theory of Income and Employment (April 15)**

Unemployment (Hall and Taylor, Chapter 5)  
Short Run Fluctuations (Hall and Taylor, Chapter 6)  
Financial Markets and Aggregate Demand (Hall and Taylor, Chapter 7)  
Teigen, Theory of Income Determination – development of forecasting model

**Student Briefings (1) Introduction to Economic Intelligence (April 18)**

Potter Introduction in Evan Potter ed., Economic Intelligence & National Security (Carleton University Press, 1998).  
Potter Intelligence Gathering Canada and Various Countries  
James Brander, The Economics of Economic Intelligence  
Samuel D. Porteous, Economic and Commercial Interests and Intelligence Services in Potter,

**Macroeconomic Adjustments and Policy (April 23)**

The Adjustment Process (Hall and Taylor Chapter 8)  
Macroeconomic Policy (Hall and Taylor, Chapter 9)

**Student Briefings (2) (April 25)**

Jeffrey Wright, "Intelligence and Economic Security" International Journal of Intelligence and CounterIntelligence (Summer 1991)

Simon Dalby "Security, Intelligence, the National Interest and the Global Environment" Intelligence and National Security (October 1995).

Peter Charles Unsinger, Meeting a Commercial Need for Intelligence: The International Maritime Bureau (International Journal of Intelligence and Counterintelligence (vol 12, no1)

Philip Zelikow, "American Economic Intelligence: Past Practice and Future Principles" Intelligence and National Security (January 1997).

**Macroeconomic Applications II Economics of Naval Forward Presence (April 25)**

Oil Markets and Shocks

Martha Harris, The Globalization of Energy Markets in Kugler and Frost  
Patrick Clawson, Oil Resources, Markets, Politics, and Policies in Kugler and Frost  
Interfaces paper  
Pakistan Defense Expenditure Paper

**Macroeconomic Foundations – The International Economy (April 30)**

Foreign Trade and The Exchange Rate (Hall and Taylor, chapter 12)  
The World Economy (Hall and Taylor, chapter 18).  
Jeffrey Sachs and Andrew Warner, "Economic Reform and the Process of Global Integration" Brookings Papers on Economic Activity (1995)

**Macroeconomic Applications III Globalization/Naval Forward Presence (May 2)**

QDR Globalization paper/Sam Trangredi Paper  
David Denoon, Economics and National Security in Kugler and Frost

**Student Briefings on Regional Globalization/Security Issues (May 7, 9)**

Richard Kugler, The European Quest for Unity in Kugler and Frost  
Stephen Larrabee, Russia and Its Neighbors in Kugler and Frost  
Moises Naim, Latin American Economies in Kugler and Frost  
Luis Bitencourt, Latin American Security in Kugler and Frost  
Kathleen Ridolfo, The Arab World in Kugler and Frost  
Shahram Chubin, The Persian Gulf: Security in Kugler and Frost  
Richard Cronin, Asian Economies in Kugler and Frost  
Thomas Robinson, Asia Pacific Security Relations in Kugler and Frost  
P. F. Hugo, Africa: Troubled Continent in a Globalized World in K&F  
Laura Rozen, The Balkans in Kugler and Frost

**Macroeconomic Applications IV -- Country Risk Analysis (May 14)**

Keri Geiger, Waiting for the Dust to Settle (Euromoney, September 2000)  
Country Credit Risk Tables

Nadeem U. Haque, Delson Mark, and Donald Mathieson, The Relative Importance of Political and Economic Variables in Creditworthiness Ratings (IMF Working Paper, April, 1998)

Brieuc Monfort and C. Julder, Using Credit Ratings for Capital Requirements on Lending to Emerging Market Economies: Possible Impact of a New Basel Accord (IMF Working Paper, March 2000)

Jerry Theodorou, "Political Risk Reconsidered" **International Journal of Intelligence and CounterIntelligence** (Summer 1993).

T. Beck et al., New Tools and New Tests in Comparative Political Economy: The Database of Political Institutions (World Bank, 1999)

**Student Briefings on Private Sector Issues (May 16)**

Garth Hancock, "US Economic Intelligence Policy and Global Competition".

James Burke, The Role of Capital Markets Intelligence in Corporate Management (International Journal of Intelligence and Counterintelligence (vol 7, no4)

Joseph Evans, U.S. Business Competitiveness and the Intelligence Community (International Journal of Intelligence and Counterintelligence (vol 7, no. 3)

Arthur Hulnick, "The Uneasy Relationship Between Intelligence and Private Industry" International Journal of Intelligence and Counterintelligence (Spring 1996).

Prakash Loungani, How Accurate are Private Sector Forecasts? Cross-Country Evidence from Consensus Forecasts of Output Growth (IMF Working Paper, April, 2000)

#### **Quantitative Economic Intelligence – Trend/Regression (May 21)**

Intelligence Methodology Catalogue Section I Problems in Forecasting  
Intelligence Methodology Catalogue Section IV Trend Analysis Sections A, B, C  
Intelligence Methodology Catalogue Section IV Sections D, E  
Susan Koch and Fred Grupp, Regression Analysis: Impact of Economic Conditions on Left Voting in France in Richards Heuer, Quantitative Approaches to Political Intelligence: The CIA Experience

#### **Quantitative Economic Intelligence – Factor/Discriminant Analysis (May 23)**

SPSS Examples and Manuals  
Defense Papers  
Economic Freedom  
Qdr globalization study

#### **Quantitative Economic Intelligence – Probabilistic Forecasting (May 28)**

CIA Bayesian Paper  
Methodology Catalogue Section V  
Decision Trees  
Navy Examples

Student Briefings on Chapters from Dick Heuer, Psychology of Defense Analysis

#### **Economic Espionage I (May 30)**

Student Briefings (V) Economic Espionage  
Stanley Kober "Why Spy? The Uses and Misuses of Intelligence" Cato Policy Analysis No. 265 (December 12, 1996).

Peter Schweizer, "The Growth of Economic Espionage," Foreign Affairs (January/February 1996).

Kristen Michal, "Business Counterintelligence and the Role of the U.S. Intelligence Community," *International Journal of Intelligence and Counterintelligence* (Winter 1994).

John Fialka, "Stealing the Spark: Why Economic Espionage Works in America" *The Washington Quarterly* (Autumn 1996).

Samuel Porteous, "Economic Espionage: Issues Arising from Increased Government Involvement with the Private Sector" *Intelligence and National Security* (October 1994).

William Warner, "International Technology Transfer and Economic Espionage" *International Journal of Intelligence and Counterintelligence* (Summer 1994).

Randall Fort, *Economic Espionage: Problems and Prospects*.

### **Economic Espionage II (June 4)**

Student Briefings (VI) Economic Espionage Contd  
Chapters from the John Filaka Book

Katherine Sibley, *Soviet Industrial Espionage Against American Military Technology and the US Response, 1930-45* (*Intelligence and National Security*, Summer 1999).

David Messenger, *Economic Intelligence and Special Operations Executive in Spain, 1943-45* (*Intelligence and National Security*, Autumn 2000)

Brian Champion, *A Review of Selected Cases of Industrial Espionage and Economic Spying, 1568- 1945* (*Intelligence and National Security*, Summer 1998).

Talbot Imlay, *Allied Economic Intelligence and Strategy During the Phoney War* (*Intelligence and National Security*, Winter 1998)

### **Defense Expenditures, Data and Related Analytical Techniques (June 6)**

Abraham Becker, *Intelligence Fiasco or Reasoned Accounting?: CIA Estimates of Soviet GNP* (*Post-Soviet Affairs* 1994)

Robert Looney, *Third World Military Expenditures and Arms Production* (London: Macmillan, 1988).

Robert Looney, "Defense Expenditures and Economic Performance in South Asia: Tests of Causality and Interdependence" *Conflict Management and Peace Science* (1991).

Robert Looney and Peter Frederiksen "The Economic Determinants of Military Expenditure in Selected East Asian Countries" *Contemporary South East Asia* (March 1990)

Robert Looney "The Budgetary Impact of Defense Expenditures in the Middle East" *The Middle East Business and Economic Review* (1993)

Robert Looney and P.C. Frederiksen "Profiles of Current Latin American Arms Producers" *International Organization* (Summer 1986).

Robert Looney "Pakistani Defense Expenditures and the Macroeconomy: Alternative Strategies to the year 2000" *Contemporary South Asia* (November 1995)

Robert Looney "Defense Expenditures and Socio-Economic Development in the Middle East and South Asia: A Factor Analytic Approach" *Kuwait University Journal of the Social Sciences* (Autumn/Winter 1994)

### **Economic Vulnerability/Leverage (June 11)**

Neil Richardson, *Foreign Policy and Economic Dependence* (Austin: University of Texas Press, 1978).

#### Student Briefings (VIII) Economic Vulnerability/Leverage

Clark Murdock, "Economic Factors as Objects of Security: Economics, Security and Vulnerability" in Knorr and Trager.

Klaus Knorr, "International Economic Leverage and its Uses" in Knorr and Trager.

David Deese, "The Vulnerability of Modern Economies" in McCormick and Bissil

Abraham S. Becker, *Economic Leverage on the Soviet Union in the 1980s* (Santa Monica: Rand Corporation, 1984).

Tor Forland, "The History of Economic Warfare: International Law, Effectiveness, Strategies" **Journal of Peace Research** (1993).

### **Economic Coercion/Sanctions (June 13)**

G. Hufbauer, J. Schott and K. Elliott, *Economic Sanctions Reconsidered: History and Current Policy*, second edition (Washington: Institute for International Economics, 1990).

G. Hufbauer, J. Schott and K. Elliott, *Economic Sanctions Reconsidered: Supplemental Case Histories* (Washington: Institute for International Economics, 1990).

#### Student Presentations Individual Sanction Cases



### **Class Grade**

There will be no formal examinations. Instead, there are three main options for a grade:

1. Three in class presentations on economic intelligence papers. These are informal presentations, with the student laying out the main ideas of the paper and its relevance. The Student would then lead the class in a brief discussion following the presentation.
2. A major research paper on globalization/naval forward presence. The last several years the class has been involved in some of the work we have done for the Navy and the QDR – the economics of Naval Forward Presence. However, this work has been completed. There are a number of logical extensions however, for original research relevant to the Navy in its preparation for the next QDR. Those selecting this option would brief the class on their findings.
3. Regional Intel students may want to undertake a major project focused on an issue relevant to their thesis/or next assignment. Students selecting this option should submit a proposal for review and approval fairly soon. Those selecting this option would brief the class on their findings.